

Corporate Finance, Module 14, "The Capital Markets"

Required reading:

(The attached PDF file has better formatting.)

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{The Brealey and Myers textbook is excellent. We say to read certain sections and to skip others. This does not mean that certain sections are better; it means that the homework assignments and exam problems are based on the sections that you must read for this course. Some of the skipped sections are fascinating, but they are not tested.}

Read section 15.1 (Venture capital) on pages 401-405; the Marvin Enterprises illustration is used in several chapters of the text. Read section 15.2 (the initial public offering) on pages 405-412. Understanding IPO's is important for an actuary working with a small, newly financed insurer; Brealey and Myers give a clear overview. Focus on pages 410-412. There are potential gains and losses for all parties in an IPO; setting the optimal issue price is an important but difficult decision in which actuaries are often involved.

Skip section 15.3 (Other new-issue procedures) on pages 412-414. Read section 15.4 (Security sales by public companies) on pages 414-415 and 417-419, skipping the subsection on international security issues on pages 415-416. Skip section 15.5 on pages 419-420, but read the summary on pages 420-421. Skip the appendices on pages 421-425.

The first 14 modules of this course discuss the relatively non-technical issues of corporate finance; the remaining modules deal with the more mathematical issues of dividend policy, capital structure, options, and real options.